

**INSURANCE AUSTRALIA GROUP LIMITED**

**ABN 60 090 739 923**

**HALF YEAR REPORT 31 DECEMBER 2007**

**APPENDIX 4D**

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INSURANCE AUSTRALIA GROUP LIMITED

APPENDIX 4D – HALF YEAR REPORT 31 DECEMBER 2007

**RESULTS FOR ANNOUNCEMENT TO THE MARKET**

	<b>Up/down</b>	<b>% change</b>	<b>\$m</b>
Revenue from ordinary activities	Up	15%	4,688
Profit from ordinary activities after tax attributable to shareholders	Down	68%	110
Net profit attributable to shareholders of Insurance Australia Group Limited	Down	68%	110

<b>Dividends – ordinary shares</b>	<b>Amount per share</b>	<b>Franked amount per share</b>
Interim dividend	13.5 cents	13.5 cents

The record date of the dividend is 12 March 2008. The dividend is to be paid on 14 April 2008. The Company's dividend reinvestment plan ("DRP") will operate by issuing new ordinary shares to participants at a 1.5% discount. The last date for the receipt of an election notice for participation in the company's DRP is 12 March 2008. The DRP Issue Price\* will be the Average Market Price\* for the eight trading days from 17 March 2008 to 28 March 2008 inclusive, less the discount of 1.5%.

Eligible shareholders may now lodge their DRP elections electronically by logging on to IAG's website at <http://www.iag.com.au/shareholder/manage/index.shtml>.

\* Defined terms in the Dividend Reinvestment Plan booklet.

This report is to be read in conjunction with the annual report of the Group for the year ended 30 June 2007 and any public announcements made by the Group during the half year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

INSURANCE AUSTRALIA GROUP LIMITED

APPENDIX 4D – HALF YEAR REPORT 31 DECEMBER 2007

**OTHER INFORMATION**

During the half year the Insurance Australia Group held an interest in the following joint ventures:

	<b>% Held</b>
<b>Joint venture</b>	
NTI Limited	50.00
Assetinsure Financial Products Pty Limited	50.00
<b>Associates</b>	
AmAssurance Berhad	30.00
First Rescue and Emergency(NZ) Limited	50.00
Loyalty New Zealand Limited	25.00
Sureplan NZ Limited	30.00
AR Hub Pty Ltd	33.33
Arista Insurance Limited	25.60
InsuranceWide.com Services Limited	26.70

The company's aggregate share of profits of these entities is not material.

INSURANCE AUSTRALIA GROUP LIMITED

APPENDIX 4D – HALF YEAR REPORT 31 DECEMBER 2007

**APPENDIX 4D COMPLIANCE MATRIX**

Appendix 4D disclosure requirements	Insurance Australia Group Appendix 4D	Page Number	Note Number
1. Details of the reporting period and the previous corresponding period.	All financial data headings		
2. Key information in relation to the following. This information must be identified as “Results for announcement to the market”.  2.1 The amount and percentage change up or down from the previous corresponding period of revenue from ordinary activities.  2.2 The amount and percentage change up or down from the previous corresponding period of profit (loss) from ordinary activities after tax attributable to members.  2.3 The amount and percentage change up or down from the previous corresponding period of net profit (loss) for the period attributable to members.  2.4 The amount per security and franked amount per security of final and interim dividends or a statement that it is not proposed to pay dividends.  2.5 The record date for determining entitlements to the dividends (if any).  2.6 A brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood.	“Results for announcement to the market” page 1 Appendix 4D		
3. Net tangible assets per security with the comparative figure for the previous corresponding period.	Attachment A: Half year financial report 31 December 2007: <ul style="list-style-type: none"> <li>• Notes to the financial statements</li> <li>- Net tangible assets.</li> </ul>	Page 24	Note 14
4. Details of entities over which control has been gained or lost during the period, including the following.  4.1 Name of the entity.  4.2 The date of the gain or loss of control.  4.3 Where material to an understanding of the report – the contribution of such entities to the reporting entity’s profit from ordinary activities during the period and the profit or loss of such entities during the whole of the previous corresponding period.	Attachment A: Half year financial report 31 December 2007: <ul style="list-style-type: none"> <li>• Notes to the financial statements</li> <li>- Acquisitions and disposals of businesses</li> </ul>	Page 23	Note 10

INSURANCE AUSTRALIA GROUP LIMITED

APPENDIX 4D – HALF YEAR REPORT 31 DECEMBER 2007

Appendix 4D disclosure requirements	Insurance Australia Group Appendix 4D	Page Number	Note Number
5. Details of individual and total dividends or distributions and dividend or distribution payments. The details must include the date on which each dividend or distribution is payable and (if known) the amount per security of foreign sourced dividend or distribution.	Attachment A: Half year financial report 31 December 2007: <ul style="list-style-type: none"> <li>• Notes to the financial statements                             <ul style="list-style-type: none"> <li>- Dividends note</li> </ul> </li> </ul>	Page 19	Note 7
6. Details of any dividend or distribution reinvestment plan in operation and the last date for the receipt of an election notice for participation in any dividend or distribution reinvestment plan.	Attachment A: Half year financial report 31 December 2007: <ul style="list-style-type: none"> <li>• Notes to the financial statements                             <ul style="list-style-type: none"> <li>- Dividend note</li> </ul> </li> </ul>	Page 19	Note 7
7. Details of associates and joint venture entities including the name of the associate or joint venture entity and details of the reporting entity's percentage holding in each of these entities and - where material to an understanding of the report - aggregate share of profits (losses) of these entities, details of contributions to net profit for each of these entities, and with comparative figures for each of these disclosures for the previous corresponding period.	"Other information" page 2 Appendix 4D		
8. For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Accounting Standards).	Not applicable		
9. For all entities, if the accounts are subject to audit dispute or qualification, a description of the dispute or qualification.	Not applicable		

INSURANCE AUSTRALIA GROUP LIMITED

APPENDIX 4D – HALF YEAR REPORT 31 DECEMBER 2007

**ATTACHMENT A**

**INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES**

**HALF YEAR FINANCIAL REPORT – 31 DECEMBER 2007**

**INSURANCE AUSTRALIA GROUP LIMITED**  
**ABN 60 090 739 923**  
**AND SUBSIDIARIES**

**FINANCIAL REPORT**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

**INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES**

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## INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

### DIRECTORS' REPORT

The Directors present their report together with the consolidated financial report of Insurance Australia Group Limited and its subsidiaries for the half year ended 31 December 2007 and the auditor's review report thereon.

The following terminology is used throughout the financial report:

\* IAG, Parent or Company - Insurance Australia Group Limited

\* IAG Group, Group or Consolidated entity - the Consolidated entity consists of Insurance Australia Group Limited and its subsidiaries.

#### **Directors**

The Company's Directors in office at any time during or since the end of the half year are as follows. Directors were in office for the entire period unless otherwise stated.

Mr JA Strong (Director since 2 August 2001), Ms YA Allen (Director since 10 November 2004), Mr JF Astbury (Director from 25 July 2000 to 31 August 2007), Mr PM Colebatch (Director since 1 January 2007), Mr GA Cousins (Director from 25 July 2000 to 31 August 2007), Mr HA Fletcher (Director since 1 September 2007), Mr ND Hamilton (Director since 19 June 2000), Ms A Hynes (Director since 1 September 2007), Mr RA Ross (Director since 25 July 2000), Mr BM Schwartz (Director since 1 January 2005), Mr MJ Hawker (Director since 2 November 2001) and Mr MJ Wilkins (Director since 26 November 2007).

#### **Principal activities**

The principal continuing activities of the IAG Group are the underwriting of general insurance and related corporate services and investing activities.

#### **Operating and financial review**

##### ***Operating result for the half year***

The IAG Group's net profit after tax for the current half year was \$127 million (2006 - \$382 million). After adjusting for minority interests in the IAG Group result, net profit attributable to the equity holders of the Company was \$110 million (2006 - \$345 million).

The current half year results incorporate the full period impact from the United Kingdom ("UK") insurance operations since the IAG Group made its entry in the UK market in the 2007 financial year. The IAG Group acquired Hastings Insurance Services Limited ("Hastings") and Advantage Insurance Company Limited ("Advantage") on 29 September 2006 and EIG (Investments) Limited ("Equity") on 8 January 2007.

##### **(a) Underwriting results**

Gross written premium of the IAG Group increased by \$527 million to \$3,851 million for the current half year period (2006 - \$3,324 million). The strong growth resulted from:

- the full half year period contribution of the UK operations which generated a growth of \$502 million; and
- the growth in the Australia personal lines business and New Zealand operations;
- partially offset by the fall in the Australia commercial lines business reflecting the impact of the price increases in a competitive market.

The IAG Group produced an underwriting loss before investment income on technical reserves of \$7 million (2006 - an underwriting profit of \$244 million).

The key factors driving the current half year period underwriting results were:

- the increase in claims expenses due to the increased frequency and severe weather events of \$326 million or loss ratio of 8.8% (2006 - \$125 million or loss ratio of 4.0%); and
- continued soft cycle conditions in commercial business.

The aggregate impact of the above was mitigated by reserve releases from the Australia long-tail portfolios.

The insurance profit of \$217 million (2006 - \$420 million) equated to an insurance margin of 5.9% (2006 - 13.3%). The fixed interest portfolio backing the technical reserves produced a strong investment income of \$224 million (2006 - \$176 million) offsetting the underwriting loss for the current half year period. This investment income incorporated a \$55 million mark to market loss due to the widening of credit spreads equivalent to a 1.5% reduction in insurance margin. Given the very high credit quality of the portfolio, the mark to market loss is expected to unwind as the portfolio matures.

**INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES**

**DIRECTORS' REPORT**

**Operating and financial review (continued)**

**(i) Australia insurance operations**

Gross written premium of the Australia insurance operation decreased slightly to \$2,683 million for the current half year period (2006 – \$2,689 million). This was mainly due to:

- decrease in premium as a result of the continuing impact of the New South Wales Life Time Care and Support Scheme;
- the Australia commercial lines portfolio decrease in premium of 5.9% as a result of the continuing soft market, the premium reductions in workers' compensation driven by competition and the improved claims experience and the volume impact of premium price increases to maintain the longer term sustainable operating results; and
- offset by the direct personal insurance short-tail portfolio which generated 4.8% growth.

The Australia insurance operation produced an underwriting profit before investment income on technical reserves of \$95 million (2006 – \$226 million). The prior period results in the following discussion incorporated the allocation of the result of the Captive reinsurer, IAG Re Dublin.

The key factors driving the current half year period underwriting results were:

- the increase in claims expenses due to the increased frequency of severe weather events by \$106 million to \$228 million (2006 – \$122 million);
- the net increase in reserve releases; and
- the continuing soft underwriting condition in commercial lines.

The insurance profit of \$255 million (2006 – \$385 million) equated to an insurance margin of 9.8% (2006 – 14.8%). The fixed interest portfolio backing the technical reserves produced a similar level of investment income of \$160 million to that of prior period (2006 – \$159 million).

Profit from fee based business was \$32 million compared to \$27 million in the prior period. The current half year period results included:

- the prior period performance fees in relation to the NSW and Victoria Workers Compensation Schemes; and
- a profit of \$9 million in relation to the sale of the premium funding loan portfolio.

**(ii) New Zealand insurance operations**

Gross written premium of the New Zealand insurance operation increased by 4.8% (3.5% in local currency terms) to \$482 million for the current half year period (2006 – \$460 million). The solid growth was mainly attributed to volume and rate increases through the intermediary channels.

**INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES**

**DIRECTORS' REPORT**

**Operating and financial review (continued)**

The New Zealand insurance operation produced an underwriting loss before investment income on technical reserves of \$32 million (2006 – an underwriting profit of \$27 million). The prior period results in the following discussion incorporated the allocation of the result of the Captive reinsurer, IAG Re Dublin.

The key factor driving the current half year period underwriting results was the increase in claims expenses by \$41 million due to the abnormal severe weather and an earthquake.

The insurance result was a loss of \$21 million (2006 – an insurance profit of \$39 million) equating to an insurance margin loss of 4.8% (2006 – a profit of 9.0%). The fixed interest portfolio backing the technical reserves produced a flat investment income of \$11 million (2006 – \$12 million).

(iii) United Kingdom insurance operations

This is the first time a full half year period result was reported for the UK insurance operations since the acquisitions of Hastings and Advantage in September 2006 and Equity in January 2007.

Gross written premium of the UK insurance operations increased by \$502 million to \$585 million for the current half year period (2006 – \$83 million).

The UK operations have increased premium rates across most classes of business written during the current half year period.

The underwriting result was a loss of \$31 million for the current half year period (2006 – a loss of \$2 million). The underwriting result included a loss ratio of 74.9% for the current half year period (2006 – 88.7%). This result benefited from the performance of Equity's bespoke business compared to the prior period's result which was substantially generated from the private motor business.

The increase in expenses ratio to 30.9% from 14.5% was mainly due to the different business operating models of Equity compared to Advantage. The current half year period expenses ratio also included:

- Equity's brokerage commission of 10.8%; and
- industry levies of 2.9%.

The insurance profit of \$21 million (2006 - \$1 million) equated to an insurance margin of 4.0% in the current half year period which is ahead of the 1.6% for the prior period. This is due to Equity producing an insurance margin of 12.9% offset by Advantage which, despite showing first signs of improvements, still recorded an insurance loss for the half year period.

(iv) Asia insurance operations

Gross written premium of the Asia insurance operations was generated from the Thailand operations with a growth of 6% in local currency terms (or 12% in Australian dollars) to \$89 million (2006 – \$79 million).

The associate company, AmAssurance, generated a flat profit of \$3 million for the current half year period (2006 – \$3 million).

(v) Reinsurance operations

The reinsurance operations reflect the business underwritten by IAG Re Labuan (from intragroup operations apart from the Australia insurance operation and associates) and Alba (Lloyd's syndicate 4455).

Gross written premium from external parties remained flat at \$12 million (2006 – \$13 million).

The insurance result was a loss of \$38 million for the current half year period (2006 – a loss of \$9 million). This was due to:

- the retention of the severe weather events claims reinsured from the UK and New Zealand insurance operations; and
- losses from the Advantage quota share arrangement.

**INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES**

**DIRECTORS' REPORT**

**Operating and financial review (continued)**

**(b) Corporate and investments**

Investment income on equity holders' funds (net of investment expenses) decreased by 49% to \$86 million from \$177 million, including the unitholders' minority interests. The decrease was due to:

- lower investment returns in the major asset classes compared to the prior period; and
- the adoption of a more conservative asset mix of 36% growth assets and 64% fixed interest securities.

The net corporate expenses including the amortisation expenses of the acquired identifiable intangible assets have increased by \$29 million to \$125 million.

The increase was mainly attributable to the:

- recognition of the full half year period's amortisation expenses of \$32 million on identifiable intangible assets arising from the acquisitions of the UK insurance operations in September 2006 and January 2007; and
- recognition of the full half year period's borrowing costs of \$16 million from the GBP subordinated term notes issued to partially fund the acquisitions of the UK insurance operation.

***Review of financial condition***

**(a) Financial position**

***(i) Assets***

The total assets of the IAG Group as at 31 December 2007 are \$20,566 million (30 June 2007 - \$21,637 million). The decrease is mainly attributable to the:

- reduction in investments mainly due to:
  - the repayment of \$300 million Australia dollar denominated subordinated term notes and \$42 million (GBP 18 million) of unsecured notes against the proceeds from the issue of NZ\$100 million NZ dollar denominated subordinated term notes; and
  - funding of the claims payments for the significant June 2007 weather related events;
- decrease in reinsurance recoveries due to a reduction in the gross estimate of the Newcastle storms in June 2007, which was partially offset by potential recoveries on the Sydney hailstorm in December 2007; and
- strengthening of the Australian dollar exchange rate against other currencies as at 31 December 2007 compared to the corresponding exchange rate as at 30 June 2007. This resulted in a reduction in the value of assets held in the UK and New Zealand operations.

***(ii) Liabilities:***

The total liabilities of the IAG Group as at 31 December 2007 are \$15,646 million (30 June 2007 - \$16,805 million) with the major component being general insurance liabilities of \$12,683 million (30 June 2007 - \$12,935 million). The movement is mainly attributable to the:

- outstanding claims liability was reduced by the payment of claims relating to the June 2007 weather related events and a reduction in the estimate of the total losses outstanding for the Newcastle storms in June 2007, partially offset by claims generated in the current half year period;
- repayment of \$300 million Australia dollar denominated subordinated term notes and \$42 million of unsecured notes, offset partially by the net proceeds from the issue of NZ\$100 million NZ dollar denominated subordinated term notes;
- a decrease in investment creditors and trade and other payables; and
- strengthening Australian dollar exchange rate against other currencies as at 31 December 2007 compared to the corresponding exchange rate as at 30 June 2007. This resulted in a reduction in the value of liabilities held in the UK and New Zealand operations.

**INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES**

**DIRECTORS' REPORT**

**Operating and financial review (continued)**

*(iii) Equity:*

The movement in equity was mainly due to net profit of \$127 million generated during the period less dividend payments to minority interests of \$42 million.

The 2007 final dividend paid to IAG equity holders was fully underwritten and has no effect on the movement of total equity from 30 June 2007 to 31 December 2007.

**(b) Cash from operations**

*(i) Cash flows from operating activities:*

Net cash flows from operating activities have decreased by \$126 million to \$73 million.

Excluding the three months and six months impact of the acquisitions of Hastings and Advantage in September 2006 and Equity in January 2007, respectively, net cash inflows from operating activities decreased by \$138 million.

The \$138 million decrease in net cash inflow is mainly attributable to:

- increase in premium receipts of \$113 million;
- increase in interest income receipts relative to a reduction in dividend income as a result of the change in investment mix to hold only 36% of growth assets and 64% of fixed interest securities.
- higher claims payments of over \$300 million including \$180 million relating to the storm that occurred in June 2007 and higher claim frequency; and
- timing of the settlement of trade and other payables.

*(ii) Cash flows from investing activities:*

Cash inflows from investing activities have increased by \$365 million to net inflows of \$235 million. The movement is mainly attributable to:

- the proceeds of \$114 million from disposal of the premium funding loan portfolio compared to the cash outflows of \$268 million in prior period for the acquisitions of Hastings & Advantage.

*(iii) Cash flows from financing activities:*

Cash flows from financing activities have decreased by \$1,394 million to net outflows of \$339 million. This movement is mainly attributable to:

- repayment of \$300 million Australia dollar denominated subordinated term notes and \$42 million of unsecured notes during the current half year period;
- proceeds of \$732 million from the issue of ordinary shares in 2006 to partially fund the UK acquisitions (net of transaction costs);
- no cash outflows for the 2007 final dividend of \$287 million which was fully underwritten compared to a \$255 million payment for the 2006 final dividend in the prior period; and
- issue of \$88 million (NZ\$100 million) NZ subordinated term notes in November 2007 compared to the issue of \$617 million (GBP250 million) GBP subordinated term notes (net of discount) in 2006.

**INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES**

**DIRECTORS' REPORT**

**Operating and financial review (continued)**

**(c) Capital adequacy / minimum capital requirements**

The IAG Group regulatory capital position relative to its minimum capital requirement ("MCR"), calculated by applying the Australian Prudential Regulation Authority standards for individual licensed insurers to the relevant consolidated results, is 1.87 times MCR as at 31 December 2007 (30 June 2007 - 1.67 times MCR).

The improvement in MCR multiple was mainly attributable to:

The slight increase in regulatory capital as a result of:

- the strengthening of the Australian dollar relative to the British pound, thereby reducing the total value of intangibles assets which are deducted from the capital base;
- net profit attributable to the equity holders of \$110 million; and
- issue of NZ dollar denominated subordinated term notes; which was partially offset by the decrease in tier 2 capital due to the repayment of the Australian dollar denominated subordinated term notes.

The decrease in the insurance, investment and concentration risks is due to:

- reduction in net insurance liabilities since 30 June 2007;
- reduction in reinsurance recoveries receivable;
- the reduction in holding of equity securities; and
- the purchase of additional reinsurance cover.

The multiple remains above the IAG Group's current benchmark multiple of 1.55 times MCR.

Further information on the IAG Group's result and review of operations can be found in the 31 December 2007 Investor Report on IAG's website, [www.iag.com.au](http://www.iag.com.au).

**Dividends**

Details of dividends paid or declared by the Company are set out in note 7.

**Events subsequent to reporting date**

Details of the matter subsequent to the end of the half year are set out in note 13. This includes:

- Declaration of interim dividend of 13.5 cents per ordinary share.

**Lead auditor's independence declaration under Section 307C of the Corporations Act 2001**

The lead auditor's independence declaration is set out on page 8 and forms part of the Directors' report for the half year ended 31 December 2007.

**INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES**

**DIRECTORS' REPORT**

**Rounding of amounts**

Unless otherwise stated, amounts in the financial report and Directors' report have been rounded to the nearest million dollars. The Company is of a kind referred to in the class order 98/100 dated 10 July 1998 issued by the Australian Securities & Investments Commission. All rounding has been conducted in accordance with that class order.

Signed at Sydney this 29th day of February 2008 in accordance with a resolution of the Directors:

*James Strong*

Director

*[Signature]*

Director



**LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C  
OF THE CORPORATIONS ACT 2001**

To: the directors of Insurance Australia Group Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half year ended 31 December 2007 there have been:

- (a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG  
KPMG

  
Brian Greig  
Partner

Sydney  
29 February 2008

**INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES**

**CONSOLIDATED INCOME STATEMENT FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

	Notes	CONSOLIDATED	
		31 December 2007	31 December 2006
		\$m	\$m
Premium revenue	3	3,923	3,369
Outwards reinsurance premium expense	4	<u>(214)</u>	<u>(214)</u>
Net premium revenue (i)		<u>3,709</u>	<u>3,155</u>
Claims expense	4	(2,806)	(2,231)
Reinsurance and other recoveries revenue	3	<u>162</u>	<u>198</u>
Net claims expense (ii)		<u>(2,644)</u>	<u>(2,033)</u>
Acquisition costs	4	(671)	(568)
Other underwriting expenses	4	(302)	(207)
Fire services levies	4	<u>(99)</u>	<u>(103)</u>
Underwriting expenses (iii)		<u>(1,072)</u>	<u>(878)</u>
Underwriting profit / (loss) (i) + (ii) + (iii)		(7)	244
Investment income on assets backing insurance liabilities	3	235	184
Investment expenses on assets backing insurance liabilities	4	<u>(11)</u>	<u>(8)</u>
Insurance profit		217	420
Investment income on equity holders' funds	3	93	185
Fee and other income	3	274	145
Share of net profit of associates	3	1	3
Finance costs	4	(58)	(50)
Fee based, corporate and other expenses	4	(312)	(164)
Net income attributable to minority interest in unitholders' funds	4	<u>(10)</u>	<u>(11)</u>
<b>Profit / (loss) before income tax</b>		205	528
Income tax (expense) / credit		<u>(78)</u>	<u>(146)</u>
<b>Profit / (loss) for the period</b>		<u>127</u>	<u>382</u>
<b>Profit / (loss) for the year attributable to:</b>			
Equity holders of the Parent		110	345
Minority interests		<u>17</u>	<u>37</u>
Profit / (loss) for the period		<u>127</u>	<u>382</u>

		CONSOLIDATED	
		31 December 2007	31 December 2006
		cents	cents
Basic earnings per ordinary share	6	<u>6.07</u>	<u>21.42</u>
Diluted earnings per ordinary share	6	<u>6.03</u>	<u>21.30</u>

The above consolidated income statement should be read in conjunction with the notes to the financial statements.

**INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007**

	Notes	CONSOLIDATED	
		31 December 2007	30 June 2007
		\$m	\$m
<b>ASSETS</b>			
Cash and cash equivalents		1,118	1,163
Investments		10,525	10,884
Premium receivable		1,935	2,045
Inventories		1	1
Trade and other receivables		982	1,233
Receivables from related bodies corporate		4	1
Current tax assets		39	19
Defined benefit superannuation asset		41	62
Reinsurance and other recoveries receivable on outstanding claims		1,088	1,346
Prepayments		62	62
Deferred levies and charges		119	123
Deferred outwards reinsurance expense		332	224
Deferred acquisition costs		779	789
Deferred tax assets		213	276
Property, plant and equipment		308	297
Investments in joint ventures and associates		79	75
Intangible assets		722	781
Goodwill		2,219	2,256
<b>TOTAL ASSETS</b>		<b>20,566</b>	<b>21,637</b>
<b>LIABILITIES</b>			
Trade and other payables		697	1,139
Reinsurance premiums payable		350	160
Payables to related bodies corporate		-	1
Restructuring provision		-	4
Current tax liabilities		10	63
Unearned premium liability		4,105	4,213
Minority interest in unitholders' funds		296	326
Lease provision		23	22
Employee benefits provision		200	242
Deferred tax liabilities		14	56
Outstanding claims liability		8,228	8,562
Interest-bearing liabilities	8	1,723	2,017
<b>TOTAL LIABILITIES</b>		<b>15,646</b>	<b>16,805</b>
<b>NET ASSETS</b>		<b>4,920</b>	<b>4,832</b>
<b>EQUITY</b>			
Share capital	9(a)	4,648	4,361
Treasury shares held in trust	9(b)	(71)	(69)
Reserves	9(c)	2	(4)
Retained earnings	9(d)	195	372
Parent interest	9	4,774	4,660
Minority interest	9(e)	146	172
<b>TOTAL EQUITY</b>	9	<b>4,920</b>	<b>4,832</b>

The above consolidated balance sheet should be read in conjunction with the notes to the financial statements.

**INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

	Notes	CONSOLIDATED	
		31 December 2007	31 December 2006
		\$m	\$m
<b>Income and (expenses) recognised directly in equity during the period, net of tax</b>			
Actuarial gains and (losses) on defined benefit superannuation plans		(2)	14
Net movement in foreign currency translation reserve		(15)	5
Net movement in hedging reserve		9	7
Vesting of share based remuneration		(1)	-*
Acquisitions of minority interest in subsidiaries		-	(5)
<b>Total net income and (expenses) recognised directly in equity</b>		<u>(9)</u>	<u>21</u>
<b>Profit for the period</b>		<u>127</u>	<u>382</u>
<b>Total recognised income and (expenses) for the period</b>		<u>118</u>	<u>403</u>
<b>Total recognised income and (expenses) for the period attributable to:</b>			
Equity holders of the Parent		102	365
Minority interests		<u>16</u>	<u>38</u>
<b>Total recognised income and (expenses) for the period</b>		<u>118</u>	<u>403</u>

\* Rounds to zero.

Other movements in equity arising from transactions with equity holders acting in their capacity as equity holders are set out in note 9.

The above consolidated statement of recognised income and expense should be read in conjunction with the notes to the financial statements.

**INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES**

**CONSOLIDATED CASH FLOW STATEMENT FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

	Notes	CONSOLIDATED	
		31 December 2007	31 December 2006
		\$m	\$m
<b>Cash flows from operating activities</b>			
Premium received		4,006	3,387
Reinsurance and other recoveries received		386	297
Claims costs paid		(3,097)	(2,327)
Outwards reinsurance premium expense paid		(187)	(196)
Dividends received		31	48
Interest and trust distributions received		324	191
Finance costs paid		(73)	(60)
Income taxes refunded		14	1
Income taxes paid		(161)	(195)
Other operating receipts		775	642
Other operating payments		<u>(1,945)</u>	<u>(1,589)</u>
Net cash flows from operating activities		<u>73</u>	<u>199</u>
<b>Cash flows from investing activities</b>			
Net cash flows on acquisition of subsidiaries		(7)	(268)
Proceeds from disposal of investments and property, plant and equipment		13,147	10,984
Outlays for investments and property, plant and equipment		(13,002)	(10,819)
Proceeds from disposal of premium funding loan portfolio		114	-
Repayment of premium funding loans		79	209
Advances of premium funding loans		<u>(96)</u>	<u>(236)</u>
Net cash flows from investing activities		<u>235</u>	<u>(130)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary shares		287	750
Proceeds from issue of trust units		378	579
Outlays for redemption of trust units		(414)	(572)
Outlays for treasury shares		(3)	-
Proceeds from borrowings		87	969
Repayment of borrowings		(347)	(352)
Dividends paid to IAG equity holders*		(287)	(255)
Dividends paid to minority interests		(42)	(46)
Dividend received on treasury shares		2	-
Share issue costs paid		<u>-</u>	<u>(18)</u>
Net cash flows from financing activities		<u>(339)</u>	<u>1,055</u>
<b>Net movement in cash held</b>		<b>(31)</b>	<b>1,124</b>
Effects of exchange rate changes on balances of cash held in foreign currencies		(14)	13
<b>Cash and cash equivalents at the beginning of the financial period</b>		<u>1,163</u>	<u>718</u>
<b>Cash and cash equivalents at the end of the financial period</b>		<u>1,118</u>	<u>1,855</u>

\* Includes dividends settled with shares under the Dividend Reinvestment Plan (refer to note 7) and the fully underwritten 2007 final dividend (refer to note 9).

The above consolidated cash flow statement should be read in conjunction with the notes to the financial statements.

**INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Insurance Australia Group Limited ("Company", "Parent" and "IAG") is a publicly listed company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is Level 26, 388 George Street, Sydney, NSW 2000. The consolidated half year financial statements of the Company for the half year ended 31 December 2007 comprise the Company and its subsidiaries (referred to as "Consolidated entity" and "IAG Group").

This general purpose half year financial report was authorised by the Board of Directors for issue on 29 February 2008.

This half year financial report does not include all of the notes normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2007 and any public announcements made by the Company during the half year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

**(a) Statement of compliance**

This general purpose financial report for the half year ended 31 December 2007 has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 134 *Interim Financial Reporting*, the recognition and measurement requirements of other applicable Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the Australian Securities Exchange Listing Rules.

International Financial Reporting Standards ("IFRS") refer to the overall framework of standards and pronouncements approved by the International Accounting Standards Board ("IASB"). IFRS forms the basis of the Australian Accounting Standards. This half year financial report of the Consolidated entity complies with IFRS.

The current IFRS standard for insurance contracts does not include a comprehensive set of recognition and measurement criteria. The IASB continues to work on a project to issue a standard that does include such criteria. Until the issuance of that standard, the financial reports of insurers in different countries that comply with IFRS may not be comparable in terms of the recognition and measurement of insurance contracts.

**(b) Basis of preparation of the financial report**

The significant accounting policies adopted in the preparation of this financial report have been consistently applied by all entities in the Consolidated entity and are the same as those applied for the annual report for the year ended 30 June 2007 unless otherwise noted. These financial statements have been prepared on the basis of historical cost principles, as modified by certain exceptions, with the principal exceptions being the measurement of all investments and derivatives at fair value and the measurement of the outstanding claims liability and related reinsurance and other recoveries at present value.

The presentation currency used for the preparation of this financial report is Australian dollars.

The balance sheet is prepared using the liquidity format in which the assets and liabilities are presented broadly in order of liquidity.

**(i) Australian accounting standards issued but not yet effective**

As at the date of this financial report, there are a number of new and revised accounting standards published by the AASB for which the mandatory application dates fall after the end of this current half year reporting period. None of these standards have been adopted and applied for the first time during the current reporting period. The standards that have not been early adopted and that are relevant to current operations are:

- AASB 8 *Operating Segments* mandatorily applicable for the first time to the 30 June 2010 financial report. The revised standard will have no financial impact but will impact on financial report disclosures. A single set of operating segments will replace the business and geographical segments currently disclosed.
- AASB 101 *Presentation of Financial Statements* issued in September 2007 mandatorily applicable for the first time to the 30 June 2010 financial report. The revised standard will have no financial impact but will impact on financial report disclosures.
- The IASB issued a revised IFRS 3 *Business Combinations* in January 2008. It is expected that the AASB will issue a revised AASB 3 *Business Combinations* which will have the same requirements as the IASB standard regarding for-profit entities. The standard is expected to be mandatorily applicable to business combinations for which the acquisition date is on or after 1 July 2009. Early adoption is permitted. The impact of the revised standard has not yet been assessed.

AASB 7 *Financial Instruments: Disclosures* will be mandatorily applicable for the first time to the 30 June 2008 financial report. This standard was issued in conjunction with AASB 2005-10 which makes a number of consequential amendments to other standards arising from the issue of AASB 7. The changes will impact only on annual financial report disclosures.

**(ii) Changes in accounting policies**

There have been no changes in accounting policies which have a material financial impact during the current half year reporting period.

**INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(b) Basis of preparation of the financial report (continued)**

*(iii) Reclassifications of comparatives*

There was a restatement of certain balance sheet items due to the finalisation of provisional accounting of the Hastings acquisition, refer to note 10 for further details.

Certain other items have been reclassified from the Consolidated entity's prior period's financial reports to conform to the current period's presentation.

*(iv) Rounding*

Amounts in this financial report have been rounded to the nearest million dollars, unless otherwise stated. The Company is the kind of company referred to in the class order 98/100 dated 10 July 1998 issued by the Australian Securities & Investments Commission. All rounding has been conducted in accordance with that class order.

**NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

In the process of applying the significant accounting policies, certain critical accounting estimates and assumptions are used, and certain judgements are made.

The estimates and related assumptions are based on experience and other factors that are considered to be reasonable, the results of which form the basis for judgements about the carrying values of assets and liabilities. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised, and the future periods if relevant.

The areas where the estimates and assumptions involve a high degree of judgment or complexity and are considered significant to the financial statements are:

- Insurance contracts related:
  - Claims;
  - Reinsurance and other recoveries on outstanding claims, and;
  - Liability adequacy test.

There are other amounts relating to insurance contracts that are based on allocation methodologies supported by assumptions (eg deferred acquisition costs; which costs in the shared services model are related to the acquisition of general insurance contracts and so eligible for deferral). The estimates relate to past events, do not incorporate forward looking considerations, and do not change from year to year.
- Other
  - Intangible assets and goodwill impairment testing;
  - Acquired intangible assets initial measurement and determination of useful life;
  - Share based remuneration; and
  - Defined benefit superannuation arrangements.

The determination of the financial impact of each of these areas on the financial performance and position for the current reporting period has involved estimates and assumptions based on judgements. The judgement has been applied in a manner consistent with that used for the annual report for the year ended 30 June 2007.

The accounting judgements made during the half year reporting period that did not involve estimations, including determination of the existence of control when entities are not wholly-owned, the recognition of the identifiable intangible assets acquired in a business combination, and the probability of recovering carry forward tax losses, are considered to have had no significant impact on the amounts recognised in the financial report (31 December 2006 and 30 June 2007 – none).

**INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

	CONSOLIDATED	
	31 December 2007	31 December 2006
	\$m	\$m
<b>NOTE 3: ANALYSIS OF INCOME</b>		
<b>(a) General insurance revenue</b>		
Gross written premium	3,851	3,324
Movement in unearned premium liability	<u>72</u>	<u>45</u>
Premium revenue	<u>3,923</u>	<u>3,369</u>
Direct premium revenue	3,910	3,363
Inwards reinsurance premium revenue	<u>13</u>	<u>6</u>
Premium revenue	3,923	3,369
Reinsurance and other recoveries revenue	<u>162</u>	<u>198</u>
Total general insurance revenue	<u>4,085</u>	<u>3,567</u>
<b>(b) Investment income</b>		
Dividend revenue	24	37
Interest revenue	285	188
Trust revenue	<u>32</u>	<u>36</u>
Total investment revenue	341	261
Net changes in fair values of investments		
- Realised net gains and (losses)	(3)	(11)
- Unrealised net gains and (losses)	<u>(10)</u>	<u>119</u>
Total investment income	<u>328</u>	<u>369</u>
Represented by:		
Investment income on assets backing insurance liabilities	235	184
Investment income on equity holders' funds	<u>93</u>	<u>185</u>
	<u>328</u>	<u>369</u>
<b>(c) Fee and other income</b>		
Brokerage and commission	80	21
Other fee based revenue	183	107
Other income	<u>11</u>	<u>17</u>
Total fee and other income	<u>274</u>	<u>145</u>
<b>(d) Share of net profit of associates</b>		
	<u>1</u>	<u>3</u>
Total income	<u>4,688</u>	<u>4,084</u>

**INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

	CONSOLIDATED	
	31 December 2007	31 December 2006
	\$m	\$m
<b>NOTE 4: ANALYSIS OF EXPENSES</b>		
<b>(a) Expenses as presented in the income statement</b>		
Outwards reinsurance premium expense	214	214
Claims expense	2,806	2,231
Acquisition costs	671	568
Other underwriting expenses	302	207
Fire service levies	99	103
Investment expenses on assets backing insurance liabilities	11	8
Finance costs	58	50
Net income attributable to minority interests in unitholders' funds	10	11
Fee based, corporate and other expenses	<u>312</u>	<u>164</u>
Total expenses	<u>4,483</u>	<u>3,556</u>
<b>(b) Analysis of expenses by function</b>		
General insurance business expenses	4,103	3,331
Fee based business expenses	237	104
Corporate and administration expenses	125	96
Investment and other expenses	<u>18</u>	<u>25</u>
Total expenses	<u>4,483</u>	<u>3,556</u>

**NOTE 5: SEGMENT REPORTING**

**(a) Primary reporting - business segments**

The IAG Group operated in the general insurance industry throughout the half year reporting period. Revenue from the general insurance industry is derived from underwriting insurance in Australia, New Zealand, United Kingdom and Asia and the global reinsurance operations and these form separate reportable segments. Other activities, including corporate services, investment management and investment of the equity holders' funds, form a separate segment.

The reported segments have changed from those disclosed in previous periods as a result of the continued expansion of the IAG Group and the way the business is managed. The change resulted in the merging of what were previously disclosed as two separate segments, being Australia personal insurance and Australia commercial insurance to form Australia insurance. The comparative information provided has been reclassified to conform to the current period's presentation.

**INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

**NOTE 5: SEGMENT REPORTING (Continued)**

**(a) Primary reporting - business segments (continued)**

	Australia insurance \$m	New Zealand insurance \$m	United Kingdom insurance \$m	Asia insurance \$m	Reinsurance operations \$m	Corporate and investments \$m	Inter-segment elimination \$m	Total \$m
<b>31 December 2007</b>								
External revenue	3,138	517	788	103	12	130	-	4,688
Inter-segment revenue	18	6	74	(1)	70	-	(167)	-
Total revenue	3,156	523	862	102	82	130	(167)	4,688
Underwriting profit / (loss)	95	(32)	(31)	(1)	(38)	-	-	(7)
Investment income net of investment fees - technical reserves	160	11	52	1	-	-	-	224
Insurance profit / (loss)	255	(21)	21	-	(38)	-	-	217
Investment income net of investment fees - equity holders' funds	-	-	-	-	-	86	-	86
Share of net profit of associates	-	-	(2)	3	-	-	-	1
Other net operating result	32	-	(2)	(4)	-	(125)	-	(99)
Profit / (loss) before income tax	287	(21)	17	(1)	(38)	(39)	-	205
<b>31 December 2006</b>								
External revenue	3,171	492	93	92	22	214	-	4,084
Inter-segment revenue	-	-	-	-	126	-	(126)	-
Total revenue	3,171	492	93	92	148	214	(126)	4,084
Underwriting profit / (loss)	245	20	(2)	1	(20)	-	-	244
Investment income net of investment fees - technical reserves	153	10	3	2	8	-	-	176
Insurance profit / (loss)	398	30	1	3	(12)	-	-	420
Investment income net of investment fees - equity holders' funds	-	-	-	-	-	177	-	177
Share of net profit of associates	-	-	-	3	-	-	-	3
Other net operating result	27	-	1	(4)	-	(96)	-	(72)
Profit / (loss) before income tax	425	30	2	2	(12)	81	-	528

**INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

	CONSOLIDATED	
	31 December 2007	31 December 2006
	cents	cents

**NOTE 6: EARNINGS PER SHARE**

**(a) Reporting period values**

Basic earnings per ordinary share <sup>(i)</sup>	<u>6.07</u>	<u>21.42</u>
Diluted earnings per ordinary share	<u>6.03</u>	<u>21.30</u>

(i) The basic earnings per ordinary share excludes the treasury shares held in trust from the denominator of the calculation, but includes earnings attributable to those shares in the numerator, to comply with AASB 133 *Earnings per Share*. If the amounts relating to those shares are excluded from both the numerator and denominator, the basic earnings per ordinary share for the half year ended 31 December 2007 would be reduced to 6.03 cents (31 December 2006 - 21.30 cents).

	CONSOLIDATED	
	31 December 2007	31 December 2006
	\$m	\$m
<b>(b) Reconciliation of earnings used in calculating earnings per share</b>		
Profit for the period	127	382
Profit attributable to minority interests	<u>(17)</u>	<u>(37)</u>
Profit attributable to equity holders of the Parent which is the earnings used in calculating basic and diluted earnings per share	<u>110</u>	<u>345</u>

	CONSOLIDATED	
	31 December 2007	31 December 2006
	Number of shares in millions	Number of shares in millions
<b>(c) Reconciliation of weighted average number of ordinary shares used in calculating earnings per share</b>		
Ordinary shares on issue	1,822	1,616
Treasury shares held in trust	<u>(13)</u>	<u>(9)</u>
Weighted average number of ordinary shares used in the calculation of basic earnings per share	1,809	1,607
Weighted average number of dilutive potential ordinary shares relating to:		
- Unvested share based remuneration rights supported by treasury shares held in trust	<u>13</u>	<u>9</u>
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	<u>1,822</u>	<u>1,616</u>

The following matters are relevant to the determination of the weighted average number of ordinary shares:

- The reset preference shares are not considered to be dilutive potential ordinary shares even though they may convert into ordinary shares because the contingent conversion conditions were not met at the reporting date.
- The reset exchangeable securities on issue by IAG Finance (New Zealand) Limited, a wholly-owned subsidiary of IAG, are not considered to be dilutive potential ordinary shares because the contingent conversion conditions were not met at the reporting date.

**INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

**NOTE 7: DIVIDENDS**

	Cents per share	Total amount	Payment date	Tax rate for franking credit	Percentage franked
		\$m			
<b>(a) Ordinary shares</b>					
Recognised in half year ended 31 December 2007					
2007 final dividend	16.0	<u>287</u>	8 October 2007	30%	100%
Recognised in year ended 30 June 2007					
2007 interim dividend	13.5	237	16 April 2007	30%	100%
2006 final dividend	16.0	<u>255</u>	9 October 2006	30%	100%
		<u>492</u>			

It is standard practice to declare the dividend for a period after the relevant reporting date. In accordance with the IAG Group's accounting policy, a dividend is not accrued for until it is declared and so the dividends for a period are generally recognised and measured in the financial reporting period following the period to which the dividend relates.

**(b) Dividend reinvestment**

There have been no changes in the terms and conditions of the Dividend Reinvestment Plan ("DRP") in operation during the half year reporting period.

The DRP for the 2007 final dividend paid on 8 October 2007 was settled with the issuance of 58.4 million fully paid ordinary shares priced at \$4.9233 per share (based on the average market price for the ten trading days from 10 September 2007 to 28 September 2007 inclusive) with 19.4 million shares issued to existing shareholders with dividend entitlements and 39.0 million shares issued to the underwriter of the subscriptions for the DRP. There was no discount applied.

**(c) Dividend not recognised at reporting date**

In addition to the above dividends, the following dividend was declared after the reporting date but before finalisation of this half year financial report and has not been recognised in this financial report.

	Cents per share	Total amount	Expected payment date	Tax rate for franking credit	Percentage franked
		\$m			
2008 interim dividend	13.5	<u>250</u>	14 April 2008	30%	100%

The dividend was declared on 29 February 2008. The Company's dividend reinvestment plan ("DRP") will operate by issuing new ordinary shares to participants at 1.5% discount. The last date for the receipt of an election notice for participation in the dividend reinvestment plan in relation to this interim dividend is 12 March 2008.

**INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

	CONSOLIDATED	
	31 December 2007	30 June 2007
	\$m	\$m
<b>NOTE 8: INTEREST-BEARING LIABILITIES</b>		
<b>(a) Composition</b>		
<i>Unsecured</i>		
Unsecured notes (i)	45	89
NZD senior term notes	44	45
Receivables refinancing debt (i)	-	6
Derivatives related to USD subordinated term notes	122	125
Subordinated term notes (i)	-	299
USD subordinated term notes	273	283
Euro / USD floating rate notes	47	46
GBP subordinated term notes	567	591
NZD subordinated term notes (ii)	88	-
Reset preference shares	550	550
<i>Secured</i>		
Secured mortgage	2	2
Less: capitalised transaction costs	(15)	(19)
	<u>1,723</u>	<u>2,017</u>

**(b) Significant changes during the period**

There has been no change in terms and conditions of the interest-bearing liabilities since 30 June 2007 except for the following:

(i) The reduction in balances of these interest-bearing liabilities is represented by the repayments made during the current half year period.

(ii) The NZD subordinated term notes have a face value of NZ\$100 million, and were issued at par by Insurance Australia Funding 2007 Limited (a wholly-owned subsidiary of Insurance Australia Limited). They are fixed rate notes with an interest rate of 9.105% per annum, payable semi-annually. The notes mature in November 2017, however, they may be redeemed at par at the issuer's option from November 2012 onwards, subject to the approval of the Australian Prudential Regulation Authority ("APRA"). If the notes are not redeemed in November 2012, all notes become floating notes with an interest rate of three month New Zealand Bank Bill Swap Rate plus a margin of 1.50% per annum. The notes qualify for lower tier 2 capital for the purpose of Insurance Australia Limited's APRA regulatory capital position.

(iii) All other movements in balances from 30 June 2007 to 31 December 2007 represent differences in exchange rates at each reporting date and mark to market movements.

**INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

	CONSOLIDATED			
	31 December 2007	30 June 2007	31 December 2007	30 June 2007
	Number of shares million	Number of shares million	\$m	\$m
<b>NOTE 9: RECONCILIATION OF TOTAL EQUITY</b>				
<b>Share capital</b>				
Ordinary shares				
Balance at the beginning of the financial period	1,794	1,595	4,361	3,263
Shares issued under institutional placement	-	136	-	750
Institutional placement share issue costs, net of tax	-	-	-	(13)
Shares issued under Share Purchase Plan	-	23	-	125
Share Purchase Plan issue costs, net of tax	-	-	-	(1)
Shares issued for the fully underwritten dividend	<u>59</u>	<u>40</u>	<u>287</u>	<u>237</u>
Balance at the end of the financial period	<u>1,853</u>	<u>1,794</u>	<u>4,648</u>	<u>4,361</u>

	CONSOLIDATED	
	31 December 2007	30 June 2007
	\$m	\$m
(a) Share capital (refer above)	4,648	4,361
(b) Treasury shares held in trust		
Balance at the beginning of the financial period	(69)	(40)
Acquisition of shares	(3)	(30)
Shares vested and/or released to participants	<u>1</u>	<u>1</u>
Balance at the end of the financial period	<u>(71)</u>	<u>(69)</u>
(c) Reserves		
<i>Foreign currency translation reserve</i>		
Balance at the beginning of the financial period	(34)	(15)
Net exchange difference on translation of foreign operations	(69)	(73)
Hedge of net investment in a subsidiary	<u>54</u>	<u>54</u>
Balance at the end of the financial period	<u>(49)</u>	<u>(34)</u>
<i>Share based remuneration reserve</i>		
Balance at the beginning of the financial period	33	19
Charged to profit for the period	13	15
Transfers from the reserve upon vesting of rights/shares	<u>(1)</u>	<u>(1)</u>
Balance at the end of the financial period	<u>45</u>	<u>33</u>
<i>Hedging reserve</i>		
Balance at the beginning of the financial period	(3)	(10)
Net movements in fair value of derivatives forming hedge	3	(30)
Net movements in fair value recognised in profit	10	40
Net tax impact from movements	<u>(4)</u>	<u>(3)</u>
Balance at the end of the financial period	<u>6</u>	<u>(3)</u>
Total reserves	<u>2</u>	<u>(4)</u>

**INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

**NOTE 9: RECONCILIATION OF TOTAL EQUITY (Continued)**

	<b>CONSOLIDATED</b>	
	<b>31 December 2007</b>	<b>30 June 2007</b>
	<b>\$m</b>	<b>\$m</b>
<b>(d) Retained earnings</b>		
Balance at the beginning of the financial period	372	274
Profit attributable to equity holders of the Parent	110	552
Actuarial gains and (losses) on defined benefit superannuation plans, net of tax	(2)	39
Dividends declared and paid	(287)	(492)
Acquisition of minority interest in subsidiaries	-	(5)
Dividends on treasury shares held in trust	<u>2</u>	<u>4</u>
Balance at the end of the financial period	<u>195</u>	<u>372</u>
Parent interest	<u>4,774</u>	<u>4,660</u>
<b>(e) Minority interests</b>		
Balance at the beginning of the financial period	172	180
Profit attributable to minority interests	17	77
Actuarial gains and (losses) on defined benefit superannuation plans, net of tax, attributable to minority interests	(1)	1
Share based remuneration reserve	-	-
Distributions to minority interests	<u>(42)</u>	<u>(86)</u>
Balance at the end of the financial period	<u>146</u>	<u>172</u>
Minority interests comprising:		
- Share capital	126	126
- Retained earnings	<u>20</u>	<u>46</u>
<b>Minority interests</b>	<u>146</u>	<u>172</u>
<b>Total equity</b>	<u>4,920</u>	<u>4,832</u>

**INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

**NOTE 10: ACQUISITIONS AND DISPOSALS OF BUSINESSES**

**31 December 2007**

There have been no changes in the current half year reporting period to the IAG Group structure composition having a material impact on the financial performance or position of the Consolidated entity. Brief information is provided about the following transactions that have occurred.

(i) *Acquisition of New Zealand based general insurance business*

The IAG Group acquired the renewal business of Anthony Runacres and Associates Limited effective 30 November 2007 for a total acquisition cost of \$7 million including transaction costs and the estimated present value of deferred consideration. The business consists of insurance and risk professionals who specialise in fire and general insurance broking in the commercial sector.

(ii) *Acquisition of regional broking businesses in the United Kingdom*

The IAG Group continued with its strategy in the United Kingdom ("UK") of acquiring smaller regional brokers. There were several businesses acquired during the period with total consideration paid of \$11 million. The largest acquisition during the period was the purchase of Just Idol Limited (trading as Diamond Insurance Services) effective 1 November 2007 for a total acquisition cost (including transaction costs) of \$5 million.

(iii) *Disposal of CGU Premium Funding loan business*

Effective 17 August 2007, the IAG Group disposed of the existing and ongoing loan business of CGU Premium Funding Pty Limited. A net profit of \$9 million was recognised from the sale of the business.

**31 December 2006**

Information is provided below regarding the finalisation of the acquisition accounting for one of the acquisitions made during the preceding financial year ended 30 June 2007. For further details on the changes in the IAG Group structure during the financial year ended 30 June 2007, refer to the 2007 annual report.

*Acquisition of Hastings Insurance Services Limited and Advantage Insurance Company Limited*

The Consolidated entity, effective 29 September 2006, acquired 100% of the share capital of Hastings Insurance Services Limited ("Hastings") and Advantage Insurance Company Limited ("Advantage") which are involved in general insurance broking and underwriting in the UK. The fair value of the net assets and acquired intangible assets have previously been reported on a provisional basis. The table below shows the final amounts used in accounting for the transaction together with adjustments made to the previously reported provisional amounts.

	Notes	CONSOLIDATED		
		Provisional	Adjustment	Final
		\$m	\$m	\$m
Purchase consideration (including transaction costs)	(i)	349	(28)	321
Total assets		447	-	447
Total liabilities	(i)	(422)	(28)	(450)
Fair value of net identifiable assets acquired		25	(28)	(3)
Customer relationships	(ii)	52	(36)	16
Brands		96	-	96
Other contractual arrangements - software		20	-	20
Fair value of identifiable intangible assets acquired		168	(36)	132
Goodwill	(ii)	156	36	192
		324	-	324

(i) This adjustment to the acquired tax liabilities reflects a final assessment received from the UK tax authority of tax liabilities relating to Hastings for tax periods prior to the date when the company was acquired by the IAG Group. The change has been reflected as an adjustment to the consideration paid as the amount is being recovered from the retention account with a portion of the original consideration paid having been retained to settle this known liability. This adjustment has therefore had no impact on the goodwill recognised.

(ii) Detailed work completed in the current half year reporting period has resulted in the identification of errors with certain inputs used in the provisional acquisition date valuation of one of the acquired intangible assets. The correction of these inputs has resulted in a reallocation of value between the acquired intangible asset and goodwill.

**INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

**NOTE 11: CONTINGENCIES**

There have been no material changes in contingent liabilities or contingent assets since 30 June 2007. As at 30 June 2007, Hastings prior year potential tax assessments were outstanding. The assessments were received during the current half year period resulted in no net financial impact (refer to note 10 for further detail).

**NOTE 12: RELATED PARTY DISCLOSURES**

The IAG Group continues operating a shared services model with the use of dedicated units and entities to provide services throughout the IAG Group. For further details on these arrangements, refer to the annual report for the year ended 30 June 2007. All transactions that have occurred among subsidiaries within the IAG Group have been eliminated for consolidation purposes.

**NOTE 13: EVENTS SUBSEQUENT TO REPORTING DATE**

As the following transactions occurred after reporting date and did not relate to conditions existing at reporting date, no account has been taken of them in the financial statements for the half year ended 31 December 2007.

**(a) Declaration of interim dividend**

On 29 February 2008, an interim dividend of 13.5 cents per share, 100% franked, was declared by the Company. The dividend will be paid on 14 April 2008.

<b>CONSOLIDATED</b>	
<b>31 December</b>	<b>30 June</b>
<b>2007</b>	<b>2007</b>
<b>\$</b>	<b>\$</b>

**NOTE 14: NET TANGIBLE ASSETS**

Net tangible assets per ordinary share

<u>0.99</u>	<u>0.90</u>
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Net tangible assets per ordinary share has been determined using the net assets on the balance sheet adjusted for minority interests, intangible assets and goodwill.

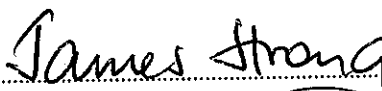
**INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES**


**DIRECTORS' DECLARATION**

In the opinion of the Directors of Insurance Australia Group Limited:

- (a) the financial statements and notes 1 to 14, are in accordance with the Corporations Act 2001 including:
- (i) giving a true and fair view of the financial position of the Consolidated entity as at 31 December 2007 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and
  - (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed at Sydney this 29th day of February 2008 in accordance with a resolution of the Directors.

..... Director

..... Director

**INDEPENDENT AUDITOR'S REPORT TO THE EQUITY HOLDERS OF INSURANCE AUSTRALIA GROUP LIMITED**

We have reviewed the accompanying half-year financial report of Insurance Australia Group Limited (the "Company"), which comprises the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of recognised income and expense and consolidated cash flow statement for the half-year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 14 and the directors' declaration of the consolidated entity comprising the Company and its subsidiaries at the half-year's end or from time to time during the half-year.

*Directors' responsibility for the financial report*

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with the Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's responsibility*

Our responsibility is to express an opinion on the half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Company's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditors of Insurance Australia Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe the half-year financial report of Insurance Australia Group Limited and its subsidiaries is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG  
KPMG

  
Brian Greig  
Partner

Sydney  
29 February 2008